Framing the BIG DECISIONS in search of profit

The internet produces huge amounts of data every day. Data are the raw material for analysis and decision making. By using data it becomes easier to make decisions based on facts and evidence.

In fact this is how scientists have been working and how science has developed since the enlightenment many hundreds of years ago.

Right now business leaders have to prepare for a scientific era of business decision making that is getting ever closer.
New concepts like "datamining" and "modelling" demand more attention, and the skills necessary to develop "business drones" are in rising demand. Future leaders in business must know how to exploit these opportunities by developing the mindset necessary for this new approach to successful decision making.
Today many, business leaders are working to the mindset of "the value chain". This was created by Harvard Professor Michael Porter in the late 70s, and is based on observations of the physical flow of materials in industrial production companies. Making production in this chain faster and cheaper has been the holy grail for many companies through the last 25 years using management tools like "outsourcing", "lean" and "kanban".

But is the "value chain" mindset enough in a future of BIG DATA and automation?

We know that BIG DATA can't talk for themselves. Data have to be processed, if they are going to have any use. We also know that BIG DATA are not solely "internally generated data", but that huge amounts of data come from the environment.
So BIG DATA from many internal and external data sources have to be integrated into meaningful decision-focused reports to be useful.
That businesses in the future have access to both internal and external BIG DATA, means that they must think about how to search and analyse data to create useful simulation models of both the internal and external environments to support evidence-based decision making.
In this perspective the concept of the "value chain" is too simplistic and narrow minded. Instead, business leaders should develop a mindset based on a complete model of the internal and external environments of the whole business operation. Such a mindset gathers together all the decisions that have to be made in a business.

This mindset reflects the mindset of the "active investor". It is also, or should be, the mindset of the board. This mindset is constantly in search of profit and is not satisfied with value creation. The active investor and the board must always consider if they should invest the capital elsewhere.
For the past 25 years we have been developing and fine-tuning the mindset of the active investor and the board, a mindset which, <u>frames all the necessary decisions that have to be made to run a company</u> (business/organization) <u>in the exact sequence they should be made in, in relation to each other, that optimizes freedom and profit. This is the logic of profit!</u>
This mindset is necessary to make the full use of BIG DATA and thus succeed in a scientific age of business automation. We have dubbed it "The Profit Chain™" and we will in this book define, describe and explain it in detail.

> **The BIG PROMISE is that you will be able to frame all the necessary BIG DECISIONS in a framework based on the logic of profit, and this can be supported by any kind of BIG DATA.**
> **You will be sure to know all the questions that have to be asked.**
>
> But for now, let us start and dig into the basics.

This page is from the book
"In Search of PROFIT
- from value chain
to profit chain".

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If an organization does not create revenue, it is a funded organization - and most funded organizations, like public organizations or foundations, create profit in the form of values like voters, goodwill and reputation.
The logic behind how these types of “profit” are created is exactly the same as when profit is measured in terms of money, although the measurement problem and what value scale to use on non-monetary profits, is more difficult to agree upon. A positive profit is important, because organizations that create negative profits (losses) over longer periods will, in the end, be closed.

But where does "profit" come from? What are the sources of profit?

Organizations create profit by two processes:

- In the first process, they buy resources (materials, manpower, machines, energy etc.) and use these to develop and produce products.
- In the second process, they market and sell the products to generate revenues.

The two processes are independent. If you buy resources for "1000 dollars", you have the freedom to decide if you will try to sell your product for "1500 dollars" or "500 dollars". There is NO LAW that guarantees that, because you have produced at the cost of 1000 dollars, you can sell for more than 1000 dollars or that, if you have produced 2000 pieces, you will sell 2000 pieces. The challenge to any organization is to find a supply and demand equation that does not lead to a loss, but rather to a satisfying profit.

Now what determines if you make a profit or a loss?

This will depend on the quality of the decisions you made when you were buying and producing, and on the decisions you made when you were selling.

In other words, profits are made if you make profitable decisions.
Profit comes from good decision-making, and ‘profitable decisions’ are the sources of profit.

One part of your profit will come from good buying decisions, the other from good selling decisions. In both cases you will avoid loss by avoiding bad decisions. This puts pressure on every organization to create and make profitable decisions.

Profitable decisions must be based on accurate anticipation and assumptions about the future to avoid mistakes and loss. Unfortunately, the profitability of your decisions can only be established in hindsight. On paper this can sound very simple. You just decide to buy cheaply and sell for more. But, for most organizations and decision makers in organizations, decisions on how to buy cheaply and sell for more are difficult to develop, plan and implement in ways that result in profit without large uncertainties and high risk taking.

The creation of profitable decisions is also very often a complex and difficult exercise and the use of still more complex knowledge and technologies and increasing global competition, does not make it easier or more certain for decision makers.

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